

MR-143

~~SECRET~~
~~NO FORN DISSEM~~

SOVIET BLOC
ECONOMIC PENETRATION
OF
INDONESIA

DOCUMENT NO. 21
NO CHANGE IN CLASS. ☐
☒ DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: _____
AUTH: HR 70-2
DATE: _____ REVIEWER: 059485

CIA/RR Project #42.1669

30 November 1956

04 JUN 1980

WARNING

THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES, WITHIN THE MEANING OF TITLE 18, SECTIONS 793 and 794 OF THE U.S. CODE, AS AMENDED. ITS TRANSMISSION OR REVELATION OF ITS CONTENTS TO OR RECEIPT BY AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

~~SECRET~~
~~NO FORN DISSEM~~

TABLE OF CONTENTS

	<u>Page</u>
Summary and Conclusions	
I. Foreign Trade	1
II. Sino-Soviet Trade Promotional Activities	4
A. Trade Agreements with Bloc Countries	4
B. Permanent Trade Offices	5
C. Participation in Djakarta International Trade Fairs	6
D. Intensified Advertising	6
III. Bloc Developmental Assistance to Indonesia	7
A. East Germany	8
B. Czechoslovakia	12
C. Rumania	14
D. The Soviet Union	16
E. Other Bloc Countries	18
F. Training Facilities Offered by the Bloc	19

TABLES

1. Indonesian Foreign Trade 1951-1956	19
2. Indonesian Textile Imports	21

APPENDIXES

I. Local Representatives Handling Bloc Products	23
II. Free World Assistance and Investment	24

~~SECRET~~

Summary and Conclusions

Indonesian trade in 1955 with the Sino-Soviet Bloc, although still a small share of the total trade, showed a sizeable increase over previous years. During the past several years the Bloc countries have made considerable efforts to increase trade and economic relations with Indonesia. These efforts have included the conclusion of trade agreements, the establishment of permanent trade missions, participation in the Djakarta International Trade Fairs and, more recently, offers of technical assistance for Indonesia's economic development. During 1956 the Bloc has intensified its efforts to develop closer relations with Indonesia. In April the Soviet Union made its first concrete proposal to give Indonesia economic assistance for development in all fields and in September a \$100,000,000 credit agreement was signed. Two agreements providing for Czech assistance were also announced in April. President Sukarno visited the Soviet Union and Communist China. Indonesia sent parliamentary missions to the USSR, Poland, Czechoslovakia and Communist China.

To date the Sino-Soviet Bloc has provided Indonesia with known credits totalling \$112.3 million. Of this total, the USSR has provided \$100 million and the European Satellites \$12.3. The Soviet credit program will undoubtedly involve large shipments of capital equipment to Indonesia. Following the pattern established in India and Afghanistan, Soviet technicians will probably be sent to man the installations in their initial phase of operations and to train Indonesians in the use of the equipment.

Prior to the signature of the Soviet credit agreement in September 1956, Bloc technical assistance to Indonesia was limited to small-scale projects—the construction of a sugar refinery, a canvas-producing factory, a tire factory and an enamelware factory. Under the Soviet credit agreement, however, technical assistance will probably be extended to the large-scale development projects such as hydroelectric installations, coal-mines and the development of non-ferrous metal ore deposits all of which have been given a high priority by the Indonesian Government in its industrialization program. The Soviet mission which will begin survey work in 1957 in the above fields will be in a position to exercise considerable influence in establishing a format for their development.

The amount of Bloc credit has been small compared with the assistance Indonesia has received from the US. Total US assistance to Indonesia since 1950 has amounted to approximately \$148 million which includes a \$100 million Export-Import Bank credit extended in 1950. An agreement under Public Law 480, signed in March 1956, provides an additional sum of \$77.4 million to be used for economic development purposes.

~~SECRET~~

~~SECRET~~

With Indonesia's economic development severely handicapped by a lack of capital and a shortage of skilled personnel, it is apparent that Indonesia will require appreciable outside assistance if an extensive development program is to be undertaken. The Indonesian Government, in line with its neutralist policy, has indicated its willingness to receive assistance from any source provided it contains no political or military commitments. Indonesia will probably continue to seek a large share of its capital and technical assistance requirements from the Free World, but there is an increasing receptivity to Bloc offers of assistance. If the Bloc countries continue to make offers which conform to Indonesia's expressed aims, Bloc aid will continue to be accepted.

~~SECRET~~

~~SECRET~~

I. Foreign Trade

Sino-Soviet Bloc trade in 1951-1956, as shown in Table 1, represented an insignificant percentage of Indonesia's total trade. Indonesian trade with the Bloc countries in 1955, although still a relatively small share of total trade, showed a sizeable increase over 1954. Indonesian exports to the Bloc in 1955 totalled \$33,898,000 (3.6 percent of total exports) compared to exports in 1954 of \$9,082,000 (1.1 percent of total exports). Similarly, Indonesian imports from the Bloc in 1955 increased to \$10,366,000 (6.6 percent of total imports) from \$15,333,000 (2.4 percent of total imports) in 1954. The gradual increase in the volume of trade with the Bloc evidenced in the first half of 1955 was somewhat offset by a decrease in the second half, partially attributable to the policy of the Harahap Cabinet which restricted Czech, Polish and Hungarian imports from July to mid-December because of unfavorable trade balances. Trade statistics for the first half of 1956 (Table 1) indicate a repetition of the 1955 pattern. However, since new trade agreements are being concluded with the European satellites which require payments in "effective currency" in place of the barter arrangements used earlier, it is not now possible to ascertain whether second half 1956 trade will tend to balance imports and exports on a country-by-country basis.

Czechoslovakia, Communist China and Hungary are Indonesia's most important Bloc trading partners. Rubber, copra, pepper, coffee, cane sugar, and coconut oil are exported to the Bloc countries in exchange for light manufactures notably textiles, cement, motorcycles, and machinery.

Of Indonesia's three principal export commodities - rubber, tin and petroleum - only rubber is exported to the Bloc, although under the current bloc agreements tin is included on Indonesia's export lists. Even though rubber accounted for approximately 63 percent of total Indonesian exports to the Bloc in 1955, rubber exports to the Bloc accounted for only 5.6 percent of total Indonesian rubber exports. In 1956 low rubber exports began to evoke reactions in the Indonesian rubber producing areas. Further alarm was evoked by President Eisenhower's statement to Congress that the US could be self-sufficient in synthetic rubber production within 2 years. On 7 June 1956 an Indonesian Cabinet decision to lift the embargo on rubber shipments to Communist China was announced. Although the Bloc provides only a relatively minor market for Indonesian rubber, it is apparent that with a decline in rubber exports Indonesia will be under pressure not only to expand rubber

~~SECRET~~

~~SECRET~~

shipments to the Bloc countries but also, with the recent Indonesian cabinet decision, to take steps to open possibilities for the export of rubber to Communist China. In 1955 the Bloc took significant proportions of certain agricultural products, as follows: coffee, 7.5 percent; copra, 11.4 percent; sugar, 18.8 percent; spices, 38.6 percent and coconut oil, 92.4 percent.

Commodity statistics for 1955 show that textiles accounted for about half of the Bloc exports to Indonesia, while cement and semi-finished iron and steel accounted for about 10 percent each, with miscellaneous light manufactures making up most of the balance.

Bloc supplies of textiles to Indonesia increased considerably in 1955. Although the Bloc had sold only about \$5 million worth of textiles to Indonesia in 1954 (3.6 percent of total textile imports), it sold over \$17 million worth in 1955, increasing its share in this import market to 10.8 percent (see Table 2). Indonesia is highly dependent upon external sources for textiles since only 10 percent of requirements are met by domestic production.

It is worth noting too, that existing American business practices are causing US suppliers to lose out to European exporters in the textile field. American suppliers refuse to give a firm contract for goods "subject to the issuance of an import license". Local importers in Medan (commercial center in Sumatra) are turning to European firms - Czech, Hungarian, Dutch and West German - which have indicated their willingness to enter into firm delivery contracts prior to the procurement of an import license (Czech and Hungarian representatives have been particularly active in this respect). Under the Indonesian system of licensing, Indonesian import firms must, when they get an order, get quotations from their suppliers and then apply for an import license at the price and in favor of the company quoted. This process is time-consuming and an import license, once granted, cannot be changed either in terms of price or source. If an American supplier of textiles raises the price of his goods between the time a quotation is given and an import license is secured, the Indonesia importer must apply for a new license with a resultant delay in delivery to local customers.

The Bloc is not limiting its sales in the textile field to textiles alone. Czechoslovakia provided 34.5 percent of Indonesia's imports of textile machinery in 1955. Whereas Czech sewing machines comprised only 0.4 percent of the total imported in 1954, their share increased

~~SECRET~~

~~SECRET~~

to 10 percent in 1955. Bloc overtures in this field have not come solely from Czechoslovakia. Communist China in 1955 offered to provide equipment for textile mills on a long-term credit basis. East Germany also has made offers of equipment, and following the 1954 Djakarta Trade Fair it donated an automatic weaving machine and two knitting machines to the Textile Research Institute in Bandung.

In view of Indonesia's intended expansion of its textile industry, the Bloc may continue to be an important supplier of equipment. In 1954 Indonesia had 65 textile mills in operation and the textile industry was equipped with about 95,000 spindles, 12,000 mechanical looms, and 70,000 hand looms. In September 1955, the head of Indonesia's Textile Research Institute, Dr. Safuin, accepted an invitation to visit a Czech textile machinery exhibit. Before his departure he declared that Indonesia at that time had only 20 percent of its minimum requirements of textile machinery. The potential impact of Bloc equipment upon Indonesia's textile industry is therefore significant.

~~SECRET~~

Sino-Soviet Trade Promotional Activities

The Sino-Soviet Bloc countries have made considerable efforts in the past several years to promote and increase economic relations with Indonesia. These efforts have included the conclusion of trade agreements, the establishment of permanent trade offices in Djakarta, active participation in the Djakarta International Trade Fairs, and intensified advertising. Since the installation of the Ali governments, various good will trips have been made to Bloc countries by the President and delegations of members of parliament.

A. Trade Agreements with Bloc Countries

Indonesia currently (November 1956) has trade agreements with the USSR, Czechoslovakia, and Communist China. There is also a special agreement between the East German Chamber of Foreign Trade and the Indonesian National Trade Organization. Expired annual agreements with Hungary, Poland, Rumania and Bulgaria are being renegotiated in the so-called "new terms" calling for cash payments of charges rather than barter type cancellation of balances.

Under the Ali Government which held office from July 1953 to August 1955 government policy led to a strengthening of trade relations with the Bloc. Closer trade ties were negotiated as trade agreements were concluded for the first time with Communist China, Rumania, and East Germany. In early 1955 the Ali Government began to show disillusionment with Bloc trade: implementation under the agreements had not measured up to expectations; Indonesian products sold to the Bloc countries were being resold on the European markets at lower prices; and the Bloc, in seeking outlets in Indonesia, appeared to favor local Communist businessmen. After the Harahap Cabinet took office in August 1955 special trade patterns - the parallel transactions* formerly used extensively with Eastern Europe - were abolished. Government declarations issued in October 1955 indicated that trade arrangements with the Bloc countries had been unsatisfactory and had resulted in a general deterioration in the foreign exchange position. The Prime Minister, in a Parliamentary debate, pointed out that raw materials exported to the Bloc had been retraded in other markets in direct competition with normal Indonesian exports and that, under parallel transactions, Indonesian exports were usually sold below world market prices with the deficit made up by charging Indonesian consumers more for imports.

* Under parallel transactions the commodities of one country are exchanged for commodities of the other without transfer of funds.

~~SECRET~~

~~SECRET~~

Bulgarian Trade Mission - A trade mission, headed by a Mr. Gummuroff, has reopened a trade office in Djakarta.

C. Participation in the Djakarta International Trade Fairs

Communist China, Czechoslovakia, East Germany, Hungary, Poland, and Rumania participated in the 3rd International Trade Fair held in Djakarta from 18 August - 26 September 1955. Poland and Rumania had only information booths and East Germany exhibited through a local agent. While the Bloc countries did not dominate the Fair as they had in 1954, they nevertheless made a very impressive showing. The Czechs were the most aggressive in publicizing their exhibit, running a series of ads in local newspapers about the products on display. As in the past, the Bloc countries used the Fair for major propaganda purposes, exhibiting their products in an effort to convince Indonesia they were capable of supplying Indonesian requirements for capital and consumer goods. Remarks made by some Indonesian officials and businessmen indicated that China, Czechoslovakia, and Hungary had, to some extent, succeeded in establishing such a conviction.

D. Intensified Advertising

The Bloc countries have advertised extensively to promote sales of their products. Polish advertisements appearing in the Indonesian press have listed 14 Polish trade organizations which claim to be able to deliver a wide range of goods including heavy capital equipment, ships, and motor vehicles. The Czech Commercial representative attached to the Czech Consulate General, in an effort to interest local importers in Medan in Czech products, distributed to importers a catalogue listing a wide variety of available products. Included machinery, vehicles and light engineering products, textiles and leather goods, ceramic and glass products. A Rumanian delegation was also in Medan demonstrating agricultural machinery -- a crawler tractor, a triple-gang plow, disc-harrows, and other farm equipment -- to the employees of the Office of Agriculture in North Sumatra. The Soviet Embassy is planning to launch a large-scale publishing and information program in Indonesia.

~~SECRET~~

~~SECRET~~

III. Economic Developmental Assistance to Indonesia

Economic development has been given high priority by the Indonesian Government, but limited financial resources have prevented a significant increase in the rate of capital investment. Private capital has failed to compensate for the low level of government investment. Governmental policy, conditioned by intense nationalism and directed at the "Indonesianization" of all companies, has sought to limit the economic influence of foreign investors. Failure to develop a realistic foreign investment law to provide guarantees against nationalization, double taxation, settlement of land concession rights, and assurances that profits can be transferred abroad has discouraged reinvestment as well as new investment by foreign capital. Foreign aid programs have been restricted by Indonesian attitudes - a fear of having restrictions imposed on their sovereignty and freedom of action and a sensitivity to foreign influence. At the same time Indonesia has not had the domestic resources and economic institutions to undertake an extensive economic development program without outside assistance.

To date, the Sino-Soviet Bloc has provided Indonesia with known credits totalling \$112.3 million. Of this total, the USSR has provided \$100 million and the European Satellites \$12.3. The Soviet credit program will undoubtedly involve large shipments of capital equipment to Indonesia. Following the pattern established in India and Afghanistan, Soviet technicians will probably be sent to man the installations in their initial phase of operations and to train Indonesians in the use of the equipment.

Prior to the signature of the Soviet economic aid agreement in September 1956, Bloc technical assistance to Indonesia was limited to small-scale projects--the construction of a sugar refinery, a canvas-producing factory, a tire factory, and an enamelware factory. Under the Soviet credit agreement, however, technical assistance will probably be extended to the large-scale development projects such as hydroelectric installations, coal-mines and the development of non-ferrous metal ore deposits all of which have been given a high priority by the Indonesian Government in its industrialization program. The Soviet mission which will begin survey work in 1957 in the above fields will be in a position to exercise considerable influence in establishing a format for their development.

Prior to 1956 Bloc assistance had been carried out by the European Satellites, primarily East Germany and Czechoslovakia. It is evident that the Bloc intends to participate in Indonesia's economic development on a large-scale. The Increased Bloc aid programs are supported by Prime Minister Ali's government.

~~SECRET~~

~~SECRET~~

1. East Germany

An East German contract was signed in February 1955, for the construction of a sugar factory in Jogyakarta (South Java). The sugar factory will have a capacity of 2,000 tons of sugar per 24 hours with an additional distillery capacity of 1,500 tons of spirit daily. It has been reported that approximately 1,200 hectares of land (about 2,000 acres) will be planted with sugar cane to supply the mill. The factory is to employ 10,000 workers. The total cane grinding capacity per 24 hours of Indonesia's sugar factories is currently 47,527 tons. The Jogyakarta factory will increase total cane grinding capacity per 24 hours by 3 percent.

East Germany showed an active interest in obtaining the contract for this project. In September 1954 Rudoff, Deputy Chief of KONTOR 04 (Food Installation of DIA Invest-Exports) was assigned to Djakarta as a member of the East German trade mission because he had some technical knowledge about sugar factories. During the same period Pech, head of the Indonesian, Turkish, and North Korean section of VEB INEX* was sent to Indonesia to plan the establishment of sugar factories. Although the Indonesian Minister of Finance announced in November or December 1954 that no decision had been reached for the construction of the sugar factory (offers had been received from West Germany, the Netherlands, Czechoslovakia and East Germany), information received at this time indicated that VEB INEX had received the contract through DIA Invest-Exports.

In February 1955 a formal contract for the construction of the sugar factory was signed with East Germany. The terms of the contract specified that East Germany must deliver the equipment in such a way to enable the raw sugar factory (including power station, molasses-tank, sugar laboratory, and transport installations) to be put into operation on 15 August 1956; the white sugar stage on 15 September 1956; the spirit plant on 1 April 1957; and the workshop and foundry on 1 March 1957.

* DIA Invest Export was established in April 1954 to facilitate the export of complete industrial installations and is responsible for contacting foreign firms and negotiating contracts. VEB INEX was established to carry out the more technical work of contracting for all equipment for a given plant and to supervise the execution of contracts.

~~SECRET~~

~~SECRET~~

Under the terms of the contract the total costs of the equipment for the factory were listed as 2,819,549 pounds sterling (approximately \$8.0 million). Installation expenses and the travel expenses and salaries of the East German technicians were included in the purchase price of the equipment. Estimates made of the total costs of constructing such a factory have placed the value as high as \$12.5 million. Sultan Hamengkubuwono, head of the self-governing region of Yogyakarta, indicated at the unloading of the first shipment of machinery for the factory that 90 million rupiahs (approximately \$7.8 million using the conversion rate of 1 rupiah/\$.087) had already been earmarked for the factory and that an additional 60 million rupiahs (approximately \$5.0 million) would be needed.

Payment is to be made in 6 annual installments over the period 1956-1961 and in the following way:

- (a) up to 1 Dec 1956 40 percent of the first annual installment
- on 15 Jan 1957 60 percent of the first annual installment
- (b) on 1 Aug and
30 Sep of 1957,
1958, 1959, 1960,
and 1961 50 percent of the annual installment payable at the fixed dates

There is nothing in the terms of the contract to indicate payment will be made by Indonesian deliveries of sugar as has been indicated by some sources. The terms specify that payments made to the special account of the Deutschen Noten Bank to have been established with the Bank of Indonesia can be used by East Germany for the purchase of Indonesian products listed in an attachment to the contract. This list includes products normally exported by Indonesia to the Bloc--the most important of which are rubber and tin.

An East German DIA Invest-Export representative arrived in Jogjakarta in September to discuss certain clauses in the contract for the purchase of East German machinery. As a result of the talks, DIA Invest-Export made preparations to open an office in Jogja in order to speed up the construction of the mill and to expedite transportation of the equipment ordered from East Germany. A Mr. Sifert was named as the East Germany DIA representative.

~~SECRET~~

~~SECRET~~

The sugar factory was scheduled to commence initial operations in August 1956, but only one-third of the machinery had arrived by the end of June. In April it was reported that approximately Rp 25 million (\$2.2 million) had been spent, with only part of the foundations of the plant completed and work partly finished on housing for personnel and the connecting railway spur.

There have been indications that inadequate domestic financing for the local costs of the factory is a problem. According to the Sultan, the central government has released only a portion of the Rp 200 million credit which had been promised to cover the local costs of the plant. In spite of the fact that the delay may have been caused in part by the failure of Indonesia to provide adequate financing and transportation facilities for the equipment, the East Germans will almost certainly be blamed.

A number of Indonesian officials have expressed dissatisfaction with the East German contract and disappointment in the execution of the plans. Dr. Djuanda, State Minister for Planning, has stated that the Sultan of Jogja proceeded with the project against the advice of the government. The Sultan himself admitted that the factory was costing 3 to 6 times the original estimate. He claimed one of the reasons for the increase in cost was that East Germany was not accustomed to erecting a complete sugar factory but only in manufacturing some of the equipment.

To date there is no definite date mentioned for the completion of the sugar factory although the central government is anxious that it be completed by the end of 1957. Completion of the plant will primarily depend on the availability of domestic financing which is still questionable.

Sugar production in Indonesia has steadily increased since the war, with 1955 production estimated at 850,000 m. t. compared with 718,000 m. t. for 1954 and 619,521 m. t. for 1953. Domestic consumption requirements have almost equalled annual production, however. The following table shows Indonesia's domestic consumption of white sugar for 1950-1955:

~~SECRET~~

~~SECRET~~

<u>Year</u>	<u>Domestic Production</u> Metric Tons	<u>Domestic Consumption</u> Percent of Production
1950	224,700	84
1951	421,467	98
1952	456,404	99
1953	518,031	80
1954	498,301	69
1955	665,186	78

The construction of the East German plant falls within the government's plans for agricultural projects, the primary purposes of which are to make Indonesia self-sufficient in food and to increase the exportation of agricultural produce in order to acquire foreign exchange.

~~SECRET~~

~~SECRET~~

B. Czechoslovakia

Czech efforts to provide technical assistance for Indonesia's economic development met with very little success in 1955. Only one small-scale project, the construction of a canvas-producing factory, was undertaken with Czech assistance. A January 1955 article in Aspek, in reporting on this project, indicated most of the textile machinery had arrived and Czech technicians were assisting in the mounting and operation of the machinery. An Embassy check-up revealed the press release was exaggerated; the textile machinery had not arrived nor had construction work begun. Date of arrival of either the textile machinery or the Czech technicians is not known. Reports that Czechoslovakia is building an electric power plant, a factory for radio receivers, a pharmaceutical plant, and a factory for small and medium-sized agricultural machines have not been confirmed.

However, Indonesian Economic Ministry sources revealed on 13 April that the Czech Government had submitted a draft credit agreement to the Indonesian Government under which credits would be granted to Indonesia for the establishment of such industries as steel, cement, textiles, glass, paper and pulp, and fertilizer. The Foreign Office has stated this was a revision of the draft on which the countries had failed to agree in July 1955. The Embassy understood that the total line of credit is not specified but that subsidiary agreements are to be reached on a project-by-project basis. The terms call for payment in sterling with 10 percent down, 15 percent on the first shipment and the balance in 9 semi-annual installments. The draft envisages the use of Czech technicians whose expenses will be paid in local currency. The agreement was signed on 16 May and the press reported the first credit under the agreement was the \$1.6 million credit to the Indonesian Tire and Rubber Company.

The credit will be used by the Indonesian Tire and Rubber Company to equip a tire factory in Djakarta. A contract for this purpose was signed between the Bank of Industry and the Czech firm, Technoexport.

Information received from the Goodyear Tire and Rubber Company reveals that the total cost of equipment for the tire factory is Rp 50 million (\$4,386,000). Equipment valued at Rp 18 million (\$1.6 million) is scheduled to arrive in Djakarta in January 1957. The plant, scheduled to begin operations in January 1958, is to produce 600 tires per day in two sizes, 6.00 x 16 for jeeps, light trucks and

~~SECRET~~

~~SECRET~~

passenger cars, and 7.50 x 20 for heavier trucks. The existing factory in Indonesia, operated by Goodyear, produces about 1,000 motor vehicle tires per day and supplies about 65 percent of the market.

In early 1956 Prague announced the conclusion of a second contract by Technoexport (under the Czech credit agreement) for the construction of an enamelware factory which is to turn out 750 tons of enamel utensils a year. The Czechs are to deliver the complete equipment including an electric power station. Czech technicians are to install the equipment and train Indonesian workers in the servicing of the machinery and in production methods. According to press reports, part of the enamelware factory equipment has arrived in Indonesia.

Czechoslovakia is continuing to exert considerable effort to promote the sales of its industrial products. It has been reported that Czechoslovakia is planning to have a mobile exposition of its industrial products tour the large cities of Indonesia. A standing offer has been made to send Czech experts to train Indonesian technicians in the use of Czech industrial machinery ordered by Indonesia. Currently there are two Czech technicians working, without pay, in Modjokerto in East Java province, testing bulldozers, heavy trucks, and locomotives ordered from Czechoslovakia by the East Java Public Works Service. The equipment, valued at approximately \$780,000, will be sent to Kediri residency in south Java for use in construction work on the Brantas River flood control project and in the digging of a new irrigation canal.

~~SECRET~~

C. Rumania

A Rumanian-Indonesian agreement of August 1954 included a provision for Rumanian assistance in the construction of a cement mill, in drilling oilwells and working mineral deposits.

In October 1955 the head of the Rumanian Trade Office in Djakarta made an offer for the construction of a cement mill on long-term credit. Rumanian technicians were due to arrive in January 1956 for a 2-month survey to select a suitable site for the plant. Indonesia already has one cement plant in operation and construction work is progressing on a cement at Gresik, near Surabaya (East Java), which is being financed by an Export-Import Bank loan. Anticipated production of the Gresik plant, added to current production, is expected to bring local cement output close to the present demands of the domestic market. Dr. Djuanda has stated that the plant at Gresik will save Indonesia approximately \$6 million per year in foreign exchange. Construction of this third plant would make Indonesia self-sufficient in cement and might even supply a surplus for export. It also would have the concomitant result of displacing Bloc exports of cement in Indonesia. Over half of Indonesia's total cement imports in the first half of 1955 were supplied by the Bloc. Of total Bloc exports of cement to Indonesia in January-June 1955 approximately 70 percent was supplied by Czechoslovakia, 23 percent by Rumania, and the remainder by Poland and Hungary. Although the Indonesian Government has not announced that Rumania has been awarded the contract for construction of this cement plant, it seems likely that Rumanian assistance will be accepted.

In July 1956 an offer was made by Rumania to operate the North Sumatra oilfields for a period of 10 years. This offer is still under consideration by the Indonesian Government. East Germany and Czechoslovakia have also expressed an interest in providing technical assistance in these fields.

The government appeared to be split over the issue of the oilfields, with one faction favoring nationalization of the oilfields, a second faction favoring exploitation of the fields by NIAK, a joint Netherlands-Indonesian petroleum company, and a third favoring a re-lease of the fields to BLM, a Dutch oil company. A recent report indicated that within 2 years Indonesia would have to import kerosene as domestic consumption would exceed production has apparently made the problem more urgent. The Embassy has indicated that the situation

~~SECRET~~

look better for having NIAM take over oil exploitation concessions in North Sumatra. It is unlikely that anything will come of the Rumanian offer of assistance if negotiations are successful with NIAM. On the other hand, if it is decided to nationalize the oilfields Bloc offers of assistance will more than likely be accepted.

Indonesia's failure to establish a stable petroleum policy presents a sizable drawback for foreign investors. Under present conditions each foreign firm must make separate arrangements for concessions, taxes, and the use of foreign exchange — all of which are subject to change. In mid-September the Indonesian Economic Minister indicated that the draft petroleum bill involving decisions on renewal, extension, and revision of oil exploitation concessions by foreign companies was ready for discussion by the Planning Council. He stated that the bill was aimed at the most efficient possible exploitation of Indonesia's oilfields.

~~SECRET~~ NOFORN
CONTINUED CONTROL

D. The Soviet Union

Joint talks on the USSR's offer of technical and economic aid took place in Djakarta in August 1956. One stumbling block to the conclusion of the talks appeared to be the question of repayment of the loan. The Indonesians wanted repayment to begin after the project was completed, but the Soviets wanted repayment to begin when the goods were shipped. Proposals made by the Soviet delegation for some aid projects, including credit offers of \$50 to \$100 million, were consistently rejected by the Indonesians on the basis of the incomplete status of their 5-year plan.

The Soviet-Indonesian economic and technical aid agreement was signed on 15 September 1956. The agreement provided for a Soviet line of credit equivalent to \$100 million for industrial projects. The credit which will be repaid over a 12-year period at 2½ percent interest beginning 3 years after the loan has been made is payable in sterling or Indonesian raw materials. The Soviets will make experts available for research in peaceful uses of atomic energy and will train Indonesians in this field. It was announced that Soviet credits would be used for financing 11 government-operated projects in the electric power, coal, chemicals, pulp and paper, and cement industries. Separate agreements are to be concluded later for specific projects.

A Soviet mission, scheduled to be sent to Indonesia in 1957, will start preliminary surveys of the coal, nonferrous metal, hydro-electric, and industrial raw material resources. The draft proposal which was drawn up by the Indonesian delegation outlined the following projects for Soviet technical assistance within the scope of the aid agreement:

Coal Mining Industry - Conduct geological surveys of coal deposits in Kalimantan and West Sumatra and conduct research work on the industrial utilization of these deposits. Inspection of the Umbilin coal mines in Sumatra and geological surveys of the coal reserves of the used mine fields in the region. Render advice on increased production methods for the Umbilin coal mines and on the industrial utilization of the deposits in the region.

Non-ferrous Industry - Conduct geological surveys of nickel deposits in Sulawesi and research work on the technological process of working the ores. Render advice on the industrial utilization of the deposits.

~~SECRET~~ NOFORN
CONTINUED CONTROL

~~SECRET NOFORN~~

CONTINUED CONTROL

Electric Power Plants - Conduct exploratory work in the Lake Towuti area to determine the best utilization of its hydroelectric resources and render advice on the construction of a water power plant. Render advice on the extension or reconstruction of existing steam power plants.

Building Material Industry - Conduct a survey to determine cement raw material reserves in the region of Makassar (Sulawesi), Ternate (Malahera Island), and Flores. Advice on the construction of a cement plant. Conduct research on the technological process of the manufacture of building materials on the basis of local materials.

Paper Industry - Inspect forest regions in Kalimantan and conduct research on technological process of pulp manufacture. Render advice on the industrial utilization of forest regions for the manufacture of paper and rayon fibers.

Road Construction and Waterways - Survey highways on Sumatra and Kalimantan islands to determine the work necessary for their reconstruction. Conduct research to determine the effort necessary to deepen the bottoms of rivers.

Agriculture and Fishery - Visitors and fellowships as required by the Ministry of Agriculture.

It is not certain that all of the projects listed above will come under the Soviet line of credit.

CONTINUED CONTROL

~~SECRET NOFORN~~

E. Other Bloc Countries

Both Poland and Communist China have made vague offers of technical assistance to Indonesia. The head of the Polish trade mission to Indonesia announced in November 1956 that Poland was willing to give industrial and textile manufacturing aid to Indonesia. The government is studying the Polish offer.

In a November 1956 speech to army officers President Sukarno disclosed that during his visit to Communist China Mao Tse-tung had offered Indonesia credits at low interest. The offer was repeated to Foreign Minister Abdulgani by Chou En-lai and Marshal Chen Yi. The communique on the renewal of the Communist Chinese-Indonesian trade agreement revealed that Peiping offered to train Indonesians in the use of light industrial equipment which it would make available under the agreement.

F. Training Facilities Offered to Indonesia by the Bloc

The Bloc countries have granted a number of scholarships to Indonesian students for specialized studies in Communist universities. East Germany granted 15 scholarships for study at East German universities and Czechoslovakia offered 9 scholarships to Indonesian students. The Chairman of the Indonesian Industrial Board stated in September 1956 that since 1955 the USSR made a standing offer of 55 scholarships for technical training and 200 scholarships for industrial training at Russian universities and technical institutes. The Board is planning to send 15 students to the USSR in 1957 for industrial training. The departure in November 1956 of 23 Indonesian students for the USSR and Poland to study under scholarships was postponed due to the tense international situation.

The Indonesian Government is aware that it must overcome its shortages of trained personnel in order to successfully implement its economic development program. One of the steps the government has taken in the expansion of its educational program has been to send Indonesian students to colleges and graduate schools abroad.

Table 1

HUNGARIAN FOREIGN TRADE 1951 - 1956

(Values in thousands of \$US)

Year	To	From	Total to Bloc		USSR	China
			Value	% of Total Value		
<u>Exports</u>						
1951		291,785	2,436	0.2	H.E.	105
1952		377,531	2,817	1.1	H.E.	27
1953		319,633	4,504	0.5	H.E.	2
1954		326,051	9,082	1.1	H.E.	2,315
1955		931,415	33,898	3.6	H.E.	6,235
1956	USSR + CHN	1,08,252	13,758	3.4	H.E.	4,235
<u>Imports</u>						
1951		873,185	6,824	0.8	H.E.	2,502
1952		923,953	5,309	0.6	H.E.	1,913
1953		722,970	6,955	0.9	H.E.	2,129
1954		623,051	15,313	2.4	H.E.	3,537
1955		604,187	40,346	6.6	H.E.	9,929
1956	USSR + CHN	1,39,300	23,941	5.4	H.E.	17,426

Table 1
(continued)

(Values in thousands of \$ US)

<u>Year</u>	<u>Albania</u>	<u>Bulgaria</u>	<u>Czechoslovakia</u>	<u>East Germany</u>	<u>Hungary</u>	<u>Poland</u>	<u>Romania</u>
<u>Exports</u>							
1951	N.R.	N.R.	956	N.R.	--	1,377	N.R.
1952	N.R.	--	3	N.R.	--	9,787	N.R.
1953	N.R.	N.R.	134	N.R.	107	4,261	N.R.
1954	N.R.	N.R.	3,758	N.R.	1,633	631	276
1955	N.R.	N.R.	10,648	N.R.	2,748	12,821	1,446
1956 Jan-June	N.R.	N.R.	56	N.R.	48	9,411	N.R.
<u>Imports</u>							
1951	N.R.	N.R.	3,069	N.R.	943	320	N.R.
1952	N.R.	a/	2,707	5	323	331	N.R.
1953	N.R.	N.R.	2,804	N.R.	1,592	312	a/
1954	N.R.	N.R.	7,766	N.R.	2,570	900	N.R.
1955	N.R.	N.R.	17,363	N.R.	8,271	2,908	1,692
1956 Jan-June	N.R.	12	2,687	1,093	1,676	707	79

a. Less than \$500

1. Data for 1956, Jan-June

Source: Department of Commerce, Bureau of Foreign Commerce, Unclassified

~~SECRET~~

TABLE 2
Indonesian Textile Imports

(Values in thousands of US \$)

January - December 1955

	<u>Total from World</u>		<u>Total from Bloc</u>		<u>Percent</u>
	<u>Metric Tons</u>	<u>Value</u>	<u>Metric Tons</u>	<u>Value</u>	
Silk yarns for weaving	34	159	10	50	31.4
Cotton yarn and thread	19,616	27,672	237	350	1.3
Yarn of syn. staple fibers	13,135	14,951	39	179	1.2
Cotton fabrics, standard type	53,281	91,835	8,939	14,361	15.6
Fabrics of fine animal hair, pure or mixed with tex. fibers other than silk and syn. not incl. laces, ribbons and spec. fab. for tech. use	413	1,698	132	601	35.4
Fab. of syn. tex. fibers, standard type, not incl. sarongs, lace fab., lace and narrow fabrics	9,229	16,163	669	1,555	9.6
Curtains, upholstery and drapery mat., n.e.s.	27	83	11	22	26.5
Lace fab., lace, trims, ribbons, and other sim. wares, n.e.s. of cotton	119	293	9	32	10.9
Spec. textile fabrics, and related products	7,383	8,296	145	283	3.4
Hsld. linens; blankets and coverlets of cotton and of fine animal hair	<u>1,003</u>	<u>646</u>	<u>93</u>	<u>87</u>	<u>13.5</u>
	104,240	161,796	10,284	17,520	10.8

~~SECRET~~

~~SECRET~~

TABLE 2 (Cont'd)

(Values in thousands of US \$)

January - December 1954

	<u>Total from World</u>		<u>Total from Bloc</u>		<u>Percent</u>
	<u>Metric Tons</u>	<u>Value</u>	<u>Metric Tons</u>	<u>Value</u>	
Silk yarns for weaving	92	504	24	100	19.8
Cotton yarn for weaving, single, unbleached	10,058	13,092	30	36	0.3
Cotton sewing thread, other than on reels and claws	40	116	5	4	3.4
Cotton fabrics, stand type, not incl. narrow and spec. fabrics	58,851	107,614	2,255	4,143	3.8
Fabrics of fine animal hair, pure, or mixed with text. fibers, other than silk or synthetic, not incl. pile, fab., laces, ribbons and spec. fab. for tech. use	427	1,514	10	40	2.6
Oil-cloth and sim. fabrics except for upholstering, articles thereof	70	86	6	360	4.4
Ropes, cables, cord, sail twine, packing thread and fishnet	2,020	1,393	44	53	3.8
Belting silk gauze, filter cloth, trans and comu. belts and sim. tex. n.e.s. used for manufacture of ind. acc.	60	166	1	3	1.8
Cotton blankets and coverlets, except carded blankets	82	67	3	4	6.0
	75,693	132,817	2,494	4,753	3.6

~~SECRET~~

APPENDIX I

Local Representatives for Bloc Products

Czechoslovakia

N. V. Ombilia Trading Co, Gunung Sahard

Firma Sjam and Comp, Djl Hajam Wuruk 31

N. V. Rd. Perintis, Djalan Perniagaan 72

N. V. MASS, Djalan Djendral Sudirman

N. V. Aliny, Petjemongan

N. V. Hardjasari, 34 Djalan Assem Baru

N. V. Alpine, Kramat Raja 16

N. V. Indoprem, 21 Djalan Gadjah Mada

East Germany

Ichsam, Ltd., Djalan Orpa 70

Asram Incl. C. V.

Hungary

Firma Autotechnicum Leidemeyer, Djalan Raja
Kramat 74

N. V. Populair, Pasar Baru 93

Rahmay

Rumania

P. D. Horas, Djalan Diklat 22

Skoda and Tes machine tools

Chemapol dyestuffs and
industrial chemicals

Skoda and Slavia engines

Skoda and Motokov Motor
Vehicles

Jawa bicycles and motorcycles
Shoe machinery, Brno
firearms

Kevo printing machinery

Zetecor tractors

Chemapol Pharmaceutical
Chemicals

Sole agent for sale of
machinery exhibited at
3rd International Trade
Fair

Sole representative for
the IFA auto factory
in East Germany

Csepel Motorcycles

Tungsram light bulbs and
radio tubes

Sole agent for textiles

~~SECRET~~

APPENDIX II

Free World Assistance and Investment (Other than U. S.)

Apart from the Netherlands loan of 1950 for \$73.7 million, assistance from other Free World countries through June 1956 had been small. In 1954 the Minister of Finance, Mr. Ong Eng Die, reportedly stated that the government had obtained loans abroad totalling Rp. 1 billion (approximately \$88 million) --Rp. 400 million (approximately \$35 million) from France, Rp. 300 million (approximately \$26 million) from West Germany and Rp. 200 million (approximately \$17.5 million) from the Netherlands. A subsequent Embassy check with members of other Missions and officials in the Ministry of Finance revealed the status of the credits from these countries to be as follows:

France - France and Indonesia reached an agreement in June 1954 at the conclusion of their trade agreement negotiations which provided for credits totalling 12 million francs (approximately \$35 million) to be used within one year and repayable over a period of 7 years. The credits were to be used for the purchase in France of capital goods--hydroelectric installations, power and electric equipment, building equipment, ships, mining equipment. As of the end of 1954 no agreement had been reached on the terms for the implementation of the credit and the French Government was becoming impatient and had asked the Indonesian Government to come to some early conclusions or release the credit for use by France in other parts of the world.

West Germany - An agreement with the Bank Verein Westduetschland, Dusseldorf, simply provided that the Bank would consider requests for credit from Indonesia, and if the project was considered sound and terms of credit could be agreed upon, the Bank would grant the credit. The amount and credit terms were not stated. There had been no specific requests submitted to the Bank for credit as of December 1954.

The Netherlands - The Bank of Indonesia was authorized by the Monetary Council on 9 April 1954 to conclude a credit agreement with the N. V. Export Financiering Mij, the Hague, for approximately 75 million rupiahs (approximately \$6.5 million). According to the Commercial Counselor of the Office of the High Commissioner for the Netherlands none of the credit had been used as of December 1954. He added that the credit is to be used for projects which must have the prior approval of the Netherlands Government and can, in no sense, be dispensed freely by the Indonesians as claimed by the Minister of Finance.

~~SECRET~~

Failure of the Indonesian Government to provide the necessary guarantees for foreign investment—guarantees against nationalization and double taxation, settlement of land concession rights and assurances that profits can be transferred abroad—has discouraged reinvestment as well as new investment by foreign capital. The withdrawal of Dutch capital, primarily invested in rubber plantations, has been most extensive, but in 1954 British and US interests also announced their intentions of liquidating particular holdings. US petroleum interests—Standard Vacuum and Caltex—expect, however, to invest approximately \$140 million in Indonesia over the next four or five years. Monthly transfer of profits is tied to commitments of new investment of \$70-80 million by Stanvac and of \$60 million by Caltex.

On 27 April 1956 the Indonesian press announced Indonesian and Japanese governmental approval for the establishment of a joint Japanese-Indonesian National Reconstruction Bank. The bank will have a capital of 50 million rupiahs (approximately \$4.4 million), 49 percent of which will be provided by a Japanese company and 51 percent by private Indonesian investors. The Japanese investor, Isahiwa Sangyo Company, has reportedly paid its first installment. The bank will not engage in foreign exchange transactions, but it will lend money for the development of Indonesia's petroleum industry, interisland shipping services, and other industries.

In mid-June 1956 a contract to finance machinery for a rice straw paper mill in Central Java under a four-year credit was concluded between the State Industrial Bank and an Italian firm "Celluloso Pemilie." The mill, scheduled to open by mid-1958, is to have an annual capacity of 7,500 tons. A second State Industrial Bank project for an asbestos cement factory near Gresik (East Java) is to have Italian technical aid and financial aid from New Zealand under the Colombo plan. New Zealand assistance has also been reported for planned tannery and glass factories. The Indonesian foreign credits committee has announced the continued opportunity for capital goods imports under long-term credits from the Netherlands, West Germany, France, Sweden, Italy, Czechoslovakia, the UK and the US.

~~SECRET~~